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VENTURE CAPITAL MONITOR

A QUARTERLY UPDATE ON THE CANADIAN VENTURE CAPITAL INDUSTRY

www.ic.gc.ca/vcmonitor

This publication by the Small Business Branch provides current information about the venture capital industry in Canada. The series will track trends in investment activity, report on topical research and look at key technology clusters where investment is taking place.

Introduction

This issue covers venture capital (VC) investment and fundraising activity in Canada during the first quarter of 2013. It also describes recent government activity in the VC market.

VC Activity Overview

Investment and fundraising

Increased year-over-year investments during Q1 2013

Canada's VC market saw significant year-over-year growth during Q1 2013 as $460 million was invested into 138 companies between January and March. In terms of value this represented a 55 percent increase over the $297 million invested into Canadian companies over Q1 2012 (Table 1). Disbursement levels in Q1 2013 were also up 38 percent from Q4 2012 when $334 million was invested into Canadian companies (Figure 1). Growth was concentrated in the energy and environmental sectors as the $180 million attracted by the sector over Q1 2013 exceeded the $144 million invested into the sector over the whole of 2012. As well, nearly half of all disbursements in the quarter were made into Quebec-based firms.

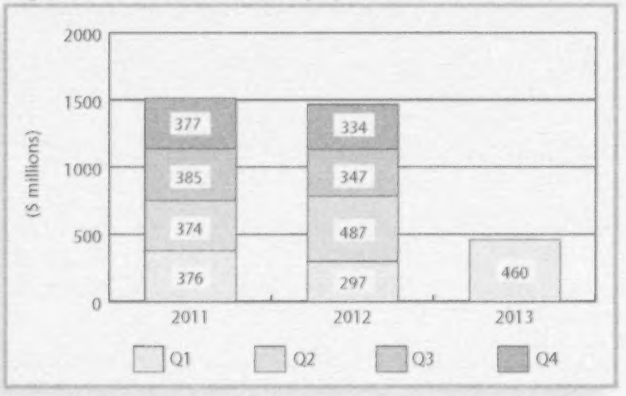
Table 1: VC investment and fundraising, Q1 2012 and Q1 2013

	Q1 2012	Q1 2013	Percent Change
	($ millions)		
Investment	297	460	55
Fundraising	676	381	-44

Source: Thomson Reuters Canada 2013.

In contrast to investment levels Canadian VC fundraising activity fell during the first quarter of 2013 lagging the single quarter activity of one year ago, when a substantial number of funds closed. This time around new capital committed to a dozen Canadian funds reached $381 million, down about 44 percent from the $676 million committed to funds at the same time in 2012 (Table 1).

Figure 1: VC Investment by quarter, 2011 to 2013



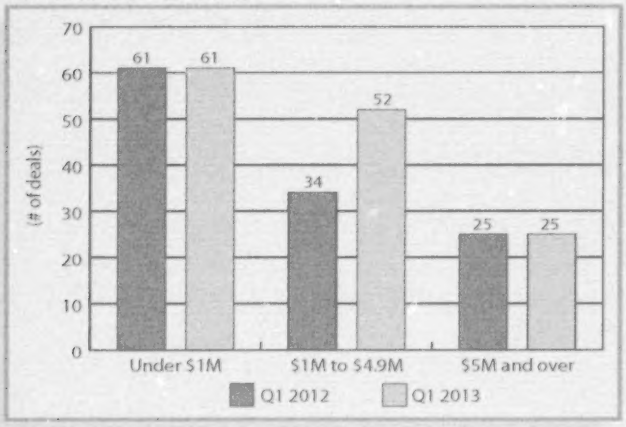
Source: Thomson Reuters Canada 2013.

Deal size

Average deal sizes increase during Q1 2013 compared to Q1 2012

Q1 2013 saw 18 more investments completed compared to the same period in 2012. Deals between the $1 million to $4.9 million range were entirely responsible for the growth in completed deals over the period. Completed deals in the under $1 million and over $5 million ranges remained unchanged from Q1 2012 and Q1 2013 (Figure 2). Average deal size during the quarter measured $3.3 million per deal, an increase over the average of $2.4 million in Q1 2012. This trend was reflected in a number of major VC deals done between January and March, which included financings of Vancouver's AppNeta Inc., Boucherville, Quebec's Distech Controls Inc., and Toronto's Keek Inc.

Figure 2: Distribution of VC investment by deal size, Q1 2012 and Q1 2013



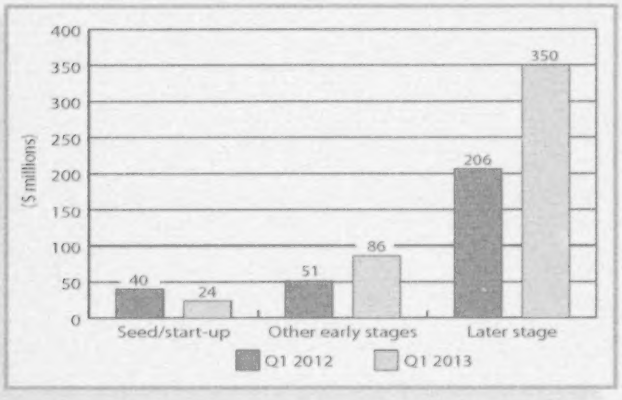
Source: Thomson Reuters Canada 2013.

Stage of development

Increased value of investment at other early stages and later stage

While investment into seed and start-up companies trended downward during Q1 2013, from $40 million to $24 million, investments increased at all other stages (Figure 3). Firms at other early stages of development attracted $86 million up from $51 million over the same period last year. Later stage companies attracted $350 million compared to just $206 million over Q1 2012. Energy and environmental firms were the key recipients of increased investment into later stage companies as the sector attracted approximately half of the $350 million invested at that stage.

Figure 3: VC investment by stage of development, Q1 2012 and Q1 2013



Source: Thomson Reuters Canada 2013.

New versus follow-on investments

New investments grow over Q1 2013

Of the total 138 deals completed over the quarter 72 were new investments into companies and 66 were follow-on investments (Table 2). The 72 new deals completed in Q1 2013 were worth $110 million, with just over half of these deals completed at the later stage. In contrast to the growth in new deals at the later stage, only 19 seed and start-up stage firms attracted financing over the first quarter of 2013 a notable decline over the past four quarters.

Table 2: Number of companies that received new versus follow-on investments, Q1 2012 to Q1 2013

Total Investment		Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
New	Seed/ start-up	21	26	24	33	19
	Other early stages	6	17	2	8	15
	Later stage	18	32	8	24	38
	All	**45**	**75**	**34**	**65**	**72**
Follow-on	Seed/ start-up	11	15	9	10	5
	Other early stages	22	20	4	15	11
	Later stage	39	49	39	40	50
	All	**72**	**84**	**52**	**65**	**66**
Total		**117**	**159**	**86**	**130**	**138**

Source: Thomson Reuters Canada 2013.

Year-over-year follow-on investments remained relatively constant with 66 deals completed (worth $350 million) during the quarter compared to 72 during the same period the previous year. As expected, most follow-on activity took place at the later stage of development as these companies attracted a total of $279 million or 61 percent of all VC dollars invested during the quarter.

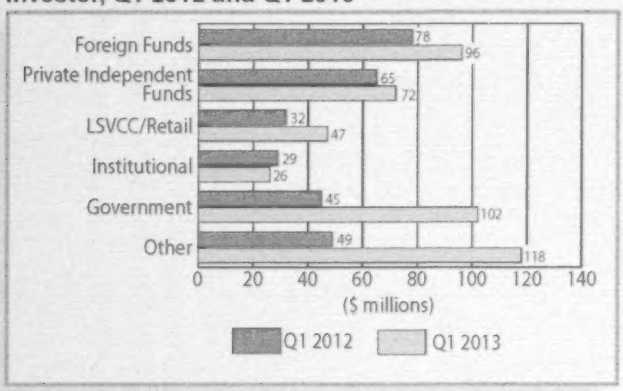
Type of investor

Increased investment among most active Canadian VC investors

All investor types experienced increased investment during Q1 2013 over Q1 2012 with the exception of institutional investors (Figure 4). Altogether, Canadian investors invested a total of $364 million in this period, up 66 percent from the $219 million these funds accounted for at the same time in 2012. Government, private independent funds, labour sponsored venture

capital corporations (LSVCCs) and other types of Canadian investors were the key contributors to this year-over-year growth. American and other foreign VC funds invested a total of $96 million into Canadian companies over the quarter, an increase from the $78 million they invested the year before.

Figure 4: Distribution of VC investment by type of investor, Q1 2012 and Q1 2013



Source: Thomson Reuters Canada 2013.

Fundraising

Strong fundraising performance by private independent funds during the quarter

As noted earlier, Canadian VC fundraising activity in the first quarter of 2013 lagged activity of one year ago. This was expected since Q1 2012 was one of the strongest quarters for private independent fundraising in about a decade. This time around, new capital committed to a dozen Canadian funds totalled a respectable $381 million, setting a healthy pace for fundraising for the year.

Fundraising activity between January and March continued to be led by new partnerships and other private funds, including a $100 million close by Quantum Valley Investment, a new VC fund by Mike Lazaridis, which will target quantum information-based opportunities. Also notable, an initial $10 million was raised for the first fund of Mistral Venture Partners. In total, private funds accounted for $193 million of new market supply in Q1 2013, with retail funds accounting for much of the balance, or $176 million.

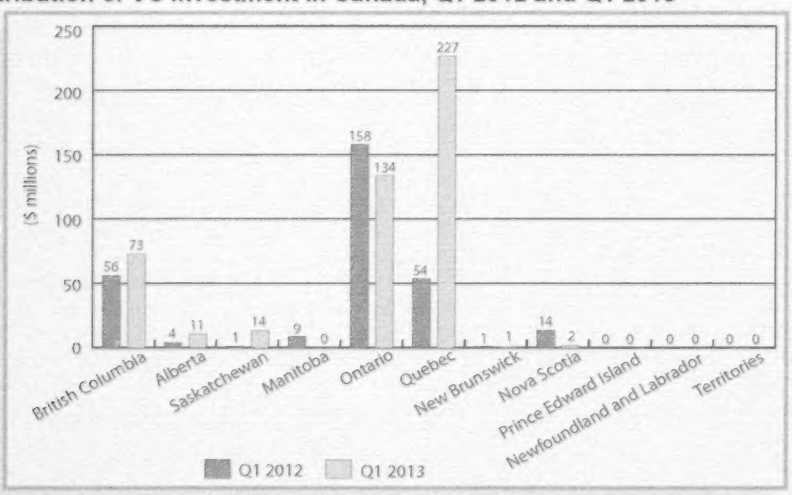
Regional distribution

Nearly half of all Canadian VC investments Quebec-based during Q1 2013

Increased Canadian VC investment during Q1 2013 was particularly concentrated in Quebec. Notably, Quebec companies attracted $227 million in 48 deals over the quarter, more than quadrupling the $54 million invested during Q1 2012 (Figure 5). Following several quarters of lower than average investment in the Quebec market; this was the single highest quarter for investments in Quebec since 2001. While Quebec-based firms attracted one-fifth of total dollars invested in Q1 2012, they attracted just shy of half of all investments in Q1 2013.

The other half of all Canadian VC dollars were mostly placed into Ontario and British Columbia firms, having attracted $134 million and $73 million respectively. This represented a slight decline in year-over-year investments in Ontario, falling to $134 million from the $158 million invested into 49 companies during the same period last year (Table 3). A notable increase into Saskatchewan companies was experienced over the quarter as these companies received $14 million over Q1 2013 compared to only $1 million over the same period the previous year.

Figure 5: Regional distribution of VC investment in Canada, Q1 2012 and Q1 2013



Source: Thomson Reuters Canada 2013.

Table 3: Number of companies receiving VC by province, Q1 2012 and Q1 2013

Province	Q1 2012	Q1 2013	Percent Change
British Columbia	16	28	75
Alberta	3	7	133
Saskatchewan	1	4	300
Manitoba	1	0	n/a
Ontario	49	47	-4
Quebec	39	48	23
New Brunswick	3	2	-33
Nova Scotia	7	2	n/a
Prince Edward Island	0	0	n/a
Newfoundland and Labrador	1	0	n/a
Territories	0	0	n/a

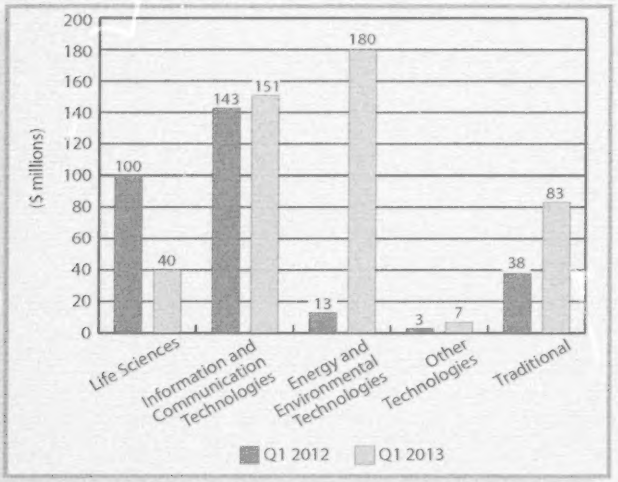
Source: Thomson Reuters Canada 2013.

Sector distribution

Canadian VC growth largely concentrated in energy and environmental technologies during Q1 2013

Growth in the Canadian VC market during Q1 2013 was largely concentrated in alternative energy and clean technology sector. In fact, alternative energy and clean technology led investment over the quarter as 27 companies absorbed close to $180 million (Figure 6). This exceeded the $144 million invested during the entirety of 2012. As a result, clean-tech activity accounted for a well above-par 39 percent of total VC invested in Q1 2013. The majority of this investment ($132 million) was attracted by Quebec's clean technology and alternative energy companies.

Figure 6: VC investment by industry sector, Q1 2012 and Q1 2013



Source: Thomson Reuters Canada 2013.

A total of $151 million went to 56 information and communication technology (ICT) companies between January and March, an increase of 6 percent over the $143 million invested over the same period in 2012. Consequently, ICT related companies accounted for about one-third of all disbursements over the quarter. Computer software, internet-focused and semiconductor firms accounted for the bulk of these investments attracting $61 million, $35 million and $21 million respectively.

In contrast, deal-making in biopharmaceuticals and other life sciences sectors fell during the first quarter of 2013, with 16 companies capturing a total of $40 million invested, or less than half of the $100 million invested in Q1 of the year before. Accordingly, life sciences activity accounted for only 9 percent of total VC activity in Q1 2013, compared to a 24 percent share in 2012.

Government Activities

Business Development Bank of Canada Activities

During Q1 2013, the Business Development Bank of Canada (BDC) made VC commitments totalling $21.2 million into 20 companies (Table 4). These financings were leveraged to a total of $53.1 million including contributions by co-investors. Additionally, the BDC invested a total of $20 million into private independent funds. Funds were matched by co-investors for a total of $148.6 million.

Table 4: VC activities of the Business Development Bank of Canada, Q1 2013

	BDC	Co-investors	Total	Number of deals
	($ millions)			
Seed/start-up	8.6	16.1	24.7	12
Development	6.6	13.0	19.6	4
Later stage	6.0	24.0	30.0	4
Total	**21.2**	**53.1**	**74.3**	**20**

Source: Business Development Bank of Canada 2013.

Other Government Activities

As noted in the previous issue of the *Venture Capital Monitor*, in January 2013 the Prime Minister announced the Venture Capital Action Plan under which the Government of Canada will invest $400 million in VC funds. In March of this year, Budget 2013 built on this promise. It proposed $60 million to help accelerators and incubators expand their services and an additional $100 million through the BDC for strategic partnerships with business accelerators and co-investments in graduate firms. Budget 2013 also proposed to eliminate the federal tax credit for LSVCCs (also known as retail venture funds) by 2017. The federal government is consulting with stakeholders in potential changes to the rules surrounding LSVCCs in order to assist with an orderly phase-out of the program.

The Government of Saskatchewan, in its recent annual budget, announced that a minimum proportion of LSVCC's portfolios will be required to target the innovation sector. This proportion will start at 15 percent and increase to 25 percent. The Government of Saskatchewan also reduced the amount of capital LSVCCs can raise.

The Government of Nova Scotia proposed in its budget 2011 to commit $15 million to a regional venture capital fund. This $48.5-million fund was officially launched in May 2013 under the name Build Ventures and is based in Halifax. Other investors in the fund are the governments of New Brunswick and Prince Edward Island, and the Business Development Bank of Canada.

Notes

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